

**MENTAL HEALTH ASSOCIATION
OF ESSEX AND MORRIS, INC.**

(Formerly known as Mental Health Association of Essex County, Inc.)

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

JUNE 30, 2018



SOBEL & CO. LLC

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mental Health Association of Essex and Morris, Inc.
Montclair, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of Mental Health Association of Essex and Morris, Inc. ("Association"), (formerly known as Mental Health Association of Essex County, Inc.), a New Jersey nonprofit organization, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those assessments, the auditors consider internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mental Health Association of Essex and Morris, Inc. (formerly known as Mental Health Association of Essex County, Inc.) as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

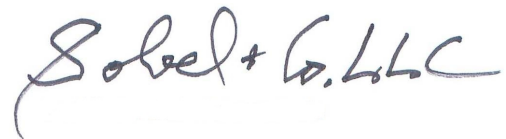
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, shown on pages 30 and 31, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and New Jersey Office of Management and Budget Circular Letter 15-08, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.



Certified Public Accountants

Livingston, New Jersey
October 25, 2018

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

(Formerly known as Mental Health Association of Essex County, Inc.)

STATEMENT OF FINANCIAL POSITION**JUNE 30, 2018****ASSETS**

CURRENT ASSETS:

Cash	\$ 639,294
Escrow and security deposits	437,877
Investments	1,734,519
Accounts receivable	338,933
Grants and contracts receivable	275,320
Pledges receivable, current, net	20,000
Charitable lead annuity trusts, current	30,720
Prepaid expenses and other assets	173,657
Total Current Assets	<u>3,650,320</u>

PROPERTY AND EQUIPMENT, Net

6,723,361

NONCURRENT ASSETS:

Pledges receivable, noncurrent, net	8,426
Charitable lead annuity trusts, noncurrent, net	99,661
Intangible assets, net	17,590
Total Noncurrent Assets	<u>125,677</u>

Total Assets

\$ 10,499,358**LIABILITIES AND NET ASSETS**

CURRENT LIABILITIES:

Current portion of long-term debt	\$ 115,360
Accounts payable and accrued expenses	394,586
Accrued payroll and related liabilities	437,779
State advances payable	767,287
Deferred revenue	321,012
Total Current Liabilities	<u>2,036,024</u>

LONG-TERM DEBT - Mortgages

Principal amount	5,240,013
Less: Unamortized debt issuance costs	161,055
Mortgage Notes Payable Less Unamortized Debt Issuance Costs	<u>5,078,958</u>

COMMITMENTS AND CONTINGENCIES

NET ASSETS:

Unrestricted:	
Board-designated	246,731
Available for operations	2,770,794
Temporarily restricted:	
Donor-restricted	296,351
Permanently restricted	70,500
Total Net Assets	<u>3,384,376</u>

Total Liabilities and Net Assets

\$ 10,499,358

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

(Formerly known as Mental Health Association of Essex County, Inc.)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND SUPPORT:				
Government grants and contracts:				
NJ Division of Mental Health Services	\$ 5,711,652	\$ -	\$ -	\$ 5,711,652
Nutrition Program	55,184	-	-	55,184
NJ Child Assault Prevention Program	74,127	-	-	74,127
Essex County Housing and Community Development	9,678	-	-	9,678
Community Development Block Grant	32,688	-	-	32,688
Total Support	<u>5,883,329</u>	-	-	<u>5,883,329</u>
Revenues:				
Medicaid, Medicare, Welfare and private insurance	4,483,594	-	-	4,483,594
Non-Medicaid (fee for service)	1,104,161	-	-	1,104,161
Fees for service	21,506	-	-	21,506
Net realized and unrealized gain on investments	15,753	11,297	-	27,050
Interest and dividends	46,474	8,053	-	54,527
Rental income	206,524	-	-	206,524
Amortized income on mortgages	111,096	-	-	111,096
Other revenue	17,240	6,000	-	23,240
Total Revenues	<u>6,006,348</u>	<u>25,350</u>	-	<u>6,031,698</u>
Public Support:				
Contributions and membership dues	60,303	32,000	-	92,303
Bequests and annuities	139,777	-	-	139,777
Grants	46,425	246,986	-	293,411
United Way	9,033	-	-	9,033
Special events	165,743	10,250	-	175,993
Total Public Support	<u>421,281</u>	<u>289,236</u>	-	<u>710,517</u>
Net assets released from restrictions	<u>455,315</u>	<u>(455,315)</u>	-	-
Total Revenues, Gains and Support	<u>12,766,273</u>	<u>(140,729)</u>	-	<u>12,625,544</u>

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
(Formerly known as Mental Health Association of Essex County, Inc.)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (Continued)
YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES:				
Program services	10,679,363	-	-	10,679,363
Supporting services:				
Management and general	1,883,346	-	-	1,883,346
Fundraising	246,510	-	-	246,510
Total Expenses	<u>12,809,219</u>	<u>-</u>	<u>-</u>	<u>12,809,219</u>
CHANGES IN NET ASSETS	(42,946)	(140,729)	-	(183,675)
NET ASSETS - Beginning of year	2,473,487	233,265	70,500	2,777,252
Net assets merged in (Note 19)	<u>586,984</u>	<u>203,815</u>	<u>-</u>	<u>790,799</u>
NET ASSETS - End of year	<u>\$ 3,017,525</u>	<u>\$ 296,351</u>	<u>\$ 70,500</u>	<u>\$ 3,384,376</u>

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
(Formerly known as Mental Health Association of Essex County, Inc.)
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services														Total Program Services	Management and General	Fundraising	Total
	Integrated Case Management Service Program	Prospect House Program	Supported Employment Programs	Family Support Programs	Youth Programs	Criminal Justice Jail Diversion Program	Supportive Living Services	Center for Low - Cost Psychotherapy	RCC	AOT	PATH	CECE						
Salaries and wages	\$ 1,212,789	\$ 1,013,833	\$ 98,263	\$ 278,195	\$ 100,987	\$ 297,083	\$ 1,172,617	\$ 287,692	\$ 145,937	\$ 549,025	\$ 692,063	\$ 213,816	\$ 6,062,300	\$ 1,155,724	\$ 95,127	\$ 7,313,151		
Payroll taxes and employee benefits	327,358	273,656	26,523	75,091	27,258	80,189	316,515	77,654	39,392	148,194	186,803	57,714	1,636,347	311,955	25,677	1,973,979		
Therapists/consultants	-	130,728	-	-	80,050	-	8,456	1,895	-	127,817	5,554	-	354,500	-	-	354,500		
Occupancy	133,774	98,645	6,965	12,871	4,389	9,766	227,306	9,089	-	60,506	69,793	20,401	653,505	77,161	-	730,666		
Equipment rental and maintenance	16,134	15,265	4,708	5,867	327	5,614	15,403	5,540	-	6,457	8,453	1,587	85,355	8,982	-	94,337		
Telephone	46,114	13,014	4,157	6,673	1,686	5,240	52,281	2,578	-	13,439	23,999	3,456	172,637	15,667	-	188,304		
Supplies	16,935	44,001	105	14,346	3,731	3,688	81,315	6,547	-	7,701	12,267	10,737	201,373	37,349	5,151	243,873		
Travel, transportation and conference	72,909	51,330	1,323	9,119	-	10,091	72,049	1,276	-	20,627	35,745	23,710	298,179	42,626	7,248	348,053		
Insurance	68,243	41,466	5,252	10,128	2,626	9,579	59,692	4,865	-	17,748	28,297	11,335	259,231	24,641	-	283,872		
Advertising and promotion	1,860	1,398	-	623	-	1,105	2,292	223	-	600	903	60	9,064	2,824	-	11,888		
Professional fees	16,927	14,088	1,285	3,943	10,747	6,997	13,809	2,430	-	8,081	7,672	61,709	147,688	58,720	15,850	222,258		
Food	-	86,169	-	-	-	-	-	-	-	-	-	-	86,169	-	-	86,169		
Postage and printing	709	1,704	-	691	726	65	729	564	-	330	495	64	6,077	4,943	169	11,189		
Subscriptions and publications	426	231	-	40	-	-	485	40	-	-	-	-	1,222	2,902	1,286	5,410		
Information technology	36,577	21,843	1,335	5,825	2,560	4,629	16,527	5,166	-	11,360	10,434	3,042	119,298	46,816	10,028	176,142		
Mental Health Association dues	-	-	-	-	-	-	-	-	-	-	-	-	-	12,927	-	12,927		
Consumer assistance	11,289	8,985	15	569	-	1,965	40,048	-	-	5,163	102,880	2,507	173,421	-	-	173,421		
Public awareness	8,119	8,119	8,119	8,119	8,119	8,120	8,120	8,119	8,119	8,120	8,120	8,120	97,433	-	-	97,433		
Special events	-	-	-	-	-	-	-	-	-	-	-	-	-	-	85,862	85,862		
Depreciation and amortization	28,772	43,158	3,596	3,596	1,439	3,596	190,613	1,079	2,158	11,509	17,982	3,596	311,094	48,552	-	359,646		
Minor equipment	-	-	-	-	-	-	-	-	-	-	570	-	570	179	-	749		
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	13,310	-	13,310		
Miscellaneous	-	1,499	-	863	-	-	825	89	-	600	25	-	3,901	18,067	113	22,081		
Total Operating Expenses	\$ 1,998,935	\$ 1,869,131	\$ 161,647	\$ 436,559	\$ 244,645	\$ 447,727	\$ 2,279,081	\$ 414,846	\$ 195,606	\$ 997,277	\$ 1,212,055	\$ 421,854	\$ 10,679,363	\$ 1,883,346	\$ 246,510	\$ 12,809,219		

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

(Formerly known as Mental Health Association of Essex County, Inc.)

STATEMENT OF CASH FLOWS**YEAR ENDED JUNE 30, 2018****CASH FLOWS PROVIDED BY (USED FOR):**OPERATING ACTIVITIES:

Changes in net assets	\$ (183,675)
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:	
Depreciation and amortization	359,647
Noncash interest expense (amortization of debt issuance costs)	8,568
Net realized and unrealized gains on investments	(27,050)
Amortized income on mortgages	(111,096)
Changes in certain assets and liabilities:	
Escrow and security deposits	(44,698)
Accounts receivable	29,624
Grants and contracts receivable	396,439
Pledges receivable	8,948
Charitable lead annuity trusts	24,734
Prepaid expenses	95,544
Accounts payable and accrued expenses	32,159
Accrued payroll and related liabilities	(69,329)
State advances payables	534,787
Deferred revenue	(782,164)
Net Cash Provided by Operating Activities	<u>272,438</u>

INVESTING ACTIVITIES:

Purchases of property and equipment	(172,458)
Proceeds from sale of investments	308,686
Purchases of investments	(21,429)
Cash received as a result of merger	437,113
Net Cash Provided by Investing Activities	<u>551,912</u>

FINANCING ACTIVITIES:

Repayment of line of credit	(275,000)
Repayment of long-term debt	(4,276)
Net Cash Used for Financing Activities	<u>(279,276)</u>

NET INCREASE IN CASH 545,074**CASH**

Beginning of year	<u>94,220</u>
End of year	<u>\$ 639,294</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

Cash paid for interest	<u>\$ 13,310</u>
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NON-CASH ACTIVITY:

Net assets received in merger, excluding cash (Note 19)	<u>\$ 353,686</u>
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MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
(Formerly known as Mental Health Association of Essex County, Inc.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - NATURE OF ORGANIZATION:

The Mental Health Association of Essex and Morris, Inc. (“Association”) is a nonprofit organization serving Essex, Morris, Sussex and Passaic Counties in New Jersey, whose mission is to promote mental health, including the integration of physical healthcare, to improve the care and treatment of individuals with mental illness, and to remove the stigma associated with emotional and mental disorders. This is accomplished through advocacy, education, prevention, early intervention, treatment and service. The Association’s revenues are derived principally from state funding, third-party reimbursements, and support from the general public.

On August 1, 2017, the Mental Health Association of Morris County Inc. merged into the Mental Health Association of Essex County. The name of the surviving Corporation was changed to Mental Health Association of Essex and Morris, Inc.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation:

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations. Unrestricted net assets consist of investments and otherwise unrestricted amounts that are available for use in carrying out the objectives of the Association and include those expendable resources that have been designated for special use by the Board of Directors.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Association and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the income earned on any related investments for general or specific purposes.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
(Formerly known as Mental Health Association of Essex County, Inc.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Financial Statement Presentation: (Continued)

In the absence of donor restriction, contributions and bequests are considered to be available for unrestricted use. All income is recognized in the period when the contribution, pledge, or unconditional promise to give is received.

The Association records donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Fair Value:

Fair value measurements are defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three defined hierarchical levels based on the quality of inputs used that directly relate to the amount of subjectivity associated with the determination of fair value.

The fair value hierarchy defines the three levels as follows:

- Level 1:** Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2:** Valuations based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3:** Valuations based on unobservable inputs used when little or no market is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, the Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers counterparty credit risk (or other parties such as counterparty in a swap) in its assessment of fair value.

The fair value of investments is summarized as follows:

Mutual funds – valued at the net asset value of shares held by the Association at year-end.

Fixed income funds – valued at closing price reported in the active or inactive market in which the bond or fund is traded.

Certificates of deposit – estimated using rates currently offered for deposits of similar remaining maturities.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
(Formerly known as Mental Health Association of Essex County, Inc.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Fair Value: (Continued)

Gains and losses, both realized and unrealized, resulting from increases or decreases in the fair value of investments are reflected in the statements of activities and changes in net assets as increases or decreases in unrestricted net assets unless the use was restricted by explicit donor stipulations or by law.

Investments:

Investment income is presented net of investment advisory/management fees and is reflected as realized and unrealized gain (loss) on investments in the accompanying statements of activities and changes in net assets. All investment income is credited directly to unrestricted net assets unless otherwise restricted by the donor. All capital appreciation/depreciation earned on investments is reported as a change in unrestricted net assets unless otherwise restricted by the donor. All investments are carried at fair value with the related gains and losses in the statements of activities and changes in net assets.

Investment expenses of \$7,683 for the year ended June 30, 2018, are shown net of unrealized and realized gains and losses in the accompanying statements of activities and changes in net assets.

Accounts Receivable:

Accounts receivable represents amounts due from Medicaid. The amounts are stated at the amount management expects to collect from outstanding balances based on historical trends. The Association charges uncollectible accounts receivable to operations when determined to be uncollectible.

Grants and Contracts Receivable:

Grants and contracts receivable is stated at the amount management expects to collect from outstanding balances. The Association charges uncollectible accounts receivable to operations when determined to be uncollectible.

Financial assistance received from federal, state and local government entities in the form of grants are recognized on a cost-reimbursement basis and are recorded in government grants and contracts on the accompanying statements of activities and changes in net assets. Grants receivable from government agencies are periodically reviewed by management for collectability. Consequently, no allowance has been recorded.

Pledges Receivable:

Unconditional contributions pledged over more than one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
(Formerly known as Mental Health Association of Essex County, Inc.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Contributions:

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions with restrictions that are met in the same reporting period as they are received are reported as unrestricted support.

Notes Payable:

The Association occasionally enters into notes payable transactions with various state government agencies, some of which are forgivable upon the passage of time and the performance of the terms of the loans. It is the Association's policy to ratably write off applicable loans to revenue over their lives. The Association does not discount noninterest-bearing or below-market-rate loans from government agencies.

Deferred Revenue:

Deferred revenue represents revenues received in advance not yet earned.

Property and Equipment:

Fixed assets are recorded at cost on the date of acquisition, or at the fair market value of the asset, based on values of comparable assets at the date of gift for donated assets. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 3 to 40 years. The estimated lives of the assets are as follows:

<u>Asset</u>	<u>Estimated Useful Life</u>
Computer software	3-5 years
Buildings and improvements	5-40 years
Furniture and fixtures	5-7 years
Transportation equipment	5 years
Computer equipment	5 years

In the absence of donor-imposed restrictions on the use of the asset, gifts of long-lived assets are reported as unrestricted support. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts. Maintenance, repairs and minor renewals are charged to operations as incurred, significant renewals and betterments greater than \$7,500 that increase the useful life of the assets are capitalized.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
(Formerly known as Mental Health Association of Essex County, Inc.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Property and Equipment: (Continued)

Although the title to all property and equipment is held by the Association, state funding sources may maintain an equitable interest in the property purchased with grant monies, as well as the right to determine the use of proceeds from the sale of those assets.

State Advances Payable:

During the year ended June 30, 2018, the Association received advances from the state of New Jersey as a result of several programs becoming fee for service. The amount owed to the state as of June 30, 2018, is \$767,287 and is included on the accompanying statements of financial position.

Debt Issuance Costs:

Debt issuance costs are reported on the statement of financial position as a direct deduction from the face amount of the debt. The debt issuance costs are being amortized over the term of the debt on a method that approximates the interest method. The Association reflects amortization of debt issuance costs within interest expense.

Revenue Recognition:

Funds received from various federal, state and local agencies represent grants awarded to the Association to provide program services. Revenue with respect to these awards is recognized to the extent of expenses incurred under the award terms, pursuant to donor-imposed restrictions. Upon completion or expiration of a grant, unexpended funds are not available to the Association and must be returned to the awarding agency. Amounts received from granting agencies in excess of incurred expenditures are recorded as refundable advances, included in accounts payable and accrued expenses on the statements of financial position.

The Association is reimbursed by Medicaid for services provided to consumers, subject to the rules and regulations of the program. Medicaid revenue is recognized when the services have been provided and billed to the Medicaid program. Related expenses are offset primarily by Medicaid and, secondarily, by other state funding. Revenue generated from those services are included on the statements of activities and changes in net assets. Service fees are recorded at estimated, net realizable amounts from consumers, third-party payers and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Estimated adjustments are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
(Formerly known as Mental Health Association of Essex County, Inc.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Functional Allocation of Expenses:

Program services, management and general, and fundraising expenses have been recorded in the statements of activities and changes in net assets and on the statements of functional expenses based on both a direct-costing method for those expenses directly attributable to a particular program or special event, or on an allocation basis based on the salary percentage of each program to total salaries for joint costs attributable to all functions. The Association's management allocates management and general expenses based upon analysis of time expended on various grants.

Advertising:

The Association expenses advertising costs as incurred. Advertising is primarily for staff recruitment.

Income Taxes:

The Association is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. The Association follows standards that provide clarification on accounting for uncertainty in income taxes recognized in the Association's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken, or expected to be taken, in a tax return, and also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The Association's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense. No interest and penalties were recorded during the fiscal year ended 2018. At June 30, 2018, there are no significant income tax uncertainties.

Endowment Funds:

The Association reports permanently restricted net assets held for educational purposes and other related activities in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates:

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
(Formerly known as Mental Health Association of Essex County, Inc.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Financial Statement Reporting for Not-for-Profit Entities:

The Financial Accounting Standards Board issued an accounting pronouncement, *Presentation of Financial Statements of Not-for-Profit Entities*, that will require net assets to be presented in two classes instead of three. The two classes will be net assets with donor restrictions and net assets without donor restrictions. Additional enhanced disclosures will be required to present the amounts and purposes of Board designations, composition of net assets with donor restrictions, and how the restrictions affect the use of resources. It also requires the Association to communicate qualitative and quantitative information on how it manages its liquid resources available to meet the cash flow needs for general expenditures within one year of the statement of financial position date. The pronouncement is effective for annual reporting periods beginning after December 15, 2017. It will be effective for the year ending June 30, 2019. The Association is currently evaluating the effect the new standard will have on its financial statements.

Subsequent Events:

The Association has evaluated events subsequent to the statement of financial position date as of June 30, 2018 through October 25, 2018, the date that the financial statements were available to be issued.

NOTE 3 - INVESTMENTS:

The Association has categorized its investments, based on the priority of inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in the active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within the different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investments.

Investments consist of both permanently restricted net assets and assets designated by the Board of Directors for long-term purposes. They were invested in money market funds, certificates of deposit, corporate bonds (financial markets) and mutual funds.

The Investment Committee periodically monitors the investment portfolios for consistency in each investment manager's investment philosophy, return relative to objectives and investment risk measured by asset concentration, exposure to extreme economic conditions and volatility.

Cash and cash equivalents include short-term, highly liquid investments with maturity dates of three months or less on the date of acquisition.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 - INVESTMENTS: (Continued)

FAIR VALUE MEASUREMENTS
AS OF JUNE 30, 2018

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and cash equivalents	\$ 236,559	\$ -	\$ -	\$ 236,559
Certificates of deposit	-	703,649	-	703,649
Bonds	-	64,641	-	64,641
Mutual funds	729,670	-	-	729,670
Investments at Fair Value	<u>\$ 966,229</u>	<u>\$ 768,290</u>	<u>\$ -</u>	<u>\$ 1,734,519</u>

Breakout of mutual funds by strategy or sector is as follows:

Mutual funds:	
Small value	22%
Large value	17%
Large blend	14%
Foreign large value	11%
Small blend	8%
Diversified emerging markets	7%
Foreign small/mid-value	6%
World bond	5%
Other	10%
Total	<u>100%</u>

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
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NOTE 4 - PLEDGES RECEIVABLE:

At June 30, 2018, pledges receivable consist of the following:

Pledges receivable in less than one year	\$ 20,000
Pledges receivable in one to five years	10,000
Less: Discount to present value	<u>(1,574)</u>
Present Value of Pledges Receivable	<u>\$ 28,426</u>

Pledges receivable in more than one year are discounted at 1.83% (five-year treasury rate) for the year ended June 30, 2018. The present value of pledges receivable is included in the accompanying statements of financial position.

NOTE 5 - CHARITABLE LEAD ANNUITY TRUSTS:

In December 2016, the Association received two charitable lead annuity trusts. Under the agreements, the Association will receive monthly installments over a seven-year period. The present value of the Association's future interest in its charitable lead annuity trusts is summarized as follows as of June 30, 2018:

Fair market value of assets to be received in less than one year	\$ 30,720
Fair market value of assets to be received in one to seven years	138,240
Less: Discount to present value	<u>(38,579)</u>
Present Value of Future Interest	<u>\$ 130,381</u>

The present value of the estimated future interest is calculated using the discount rate of .84% for June 30, 2018, and applicable life expectancy tables. The present value of the charitable lead annuity trusts is included in the accompanying statements of financial position.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT:

At June 30, 2018, property, plant and equipment consists of:

Land	\$ 2,073,191
Building and improvements	6,169,465
Furniture and fixtures	405,924
Transportation equipment	1,551,090
Computer equipment	<u>104,013</u>
	10,303,683
Less: Accumulated depreciation	<u>3,580,322</u>
Property and Equipment, Net	<u>\$ 6,723,361</u>

Depreciation expense for the years ended June 30, 2018 was \$355,596.

NOTE 7 - INTANGIBLE ASSETS:

At June 30, 2018, intangible assets consist of the following:

Computer software	\$ 52,520
Less: Accumulated amortization	<u>34,930</u>
Total Intangible Assets	<u>\$ 17,590</u>

Amortization expense for the year ended June 30, 2018 was \$4,051.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
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NOTES TO FINANCIAL STATEMENTS
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NOTE 8 - LONG-TERM DEBT:

Long-term debt consists of the following at June 30, 2018:

Mortgage payable to New Jersey Housing and Mortgage Finance Agency (“NJHMFA”) due November 2023, bearing no interest. Principal to be repaid with 25% of the project’s annual available cash flow (for a term not to exceed 15 years). The note is collateralized by land and building on Bay Avenue in Bloomfield, New Jersey, and the property is restricted to specific uses specified by NJHMFA. The unpaid balance at maturity will be renegotiable under new terms. The loan is shown net of unamortized debt issuance costs of \$9,513 at June 30, 2018.

\$ 387,095

Mortgage payable to the county of Essex due April 2028, bearing no interest. The note is collateralized by land and building on Bay Avenue in Bloomfield, New Jersey. The mortgage is scheduled to be forgiven over the 20-year compliance period; scheduled to be completely forgiven at maturity.

89,370

Mortgage payable to the county of Essex due July 2029, bearing no interest. The note is collateralized by land and building in Nutley, New Jersey. The mortgage is scheduled to be forgiven over the 20-year compliance period; scheduled to be completely forgiven at maturity.

153,974

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 - LONG-TERM DEBT: (Continued)

Mortgage payable to NJHMFA due October 2039, bearing no interest. Principal to be repaid with 25% of the project's annual available cash flow (for a term not to exceed 30 years). The note is collateralized by land and building on 16th Street in Bloomfield, New Jersey, and the property is restricted to specific uses specified by NJHMFA. The unpaid balance at maturity will be renegotiable under new terms. The loan is shown net of unamortized debt issuance costs of \$21,262 at June 30, 2018.

507,115

Mortgage payable to NJHMFA due October 2039, bearing no interest. Principal to be repaid with 25% of the project's annual available cash flow (for a term not to exceed 30 years). The note is collateralized by land and building in Nutley, New Jersey, and the property is restricted to specific uses specified by NJHMFA. The unpaid balance at maturity will be renegotiable under new terms. The loan is shown net of unamortized debt issuance costs of \$48,451 at June 30, 2018.

1,135,737

Mortgage payable to the county of Essex due March 2029, bearing no interest. The note is collateralized by land and building on 16th Street in Bloomfield, New Jersey. The mortgage is scheduled to be forgiven in full over the 20-year compliance period.

59,151

Mortgage payable to NJHMFA due August 2042, bearing no interest. Principal to be repaid with 25% of the project's annual available cash flow (for a term not to exceed 30 years). The note is collateralized by land and building in Montclair, New Jersey, and the property is restricted to specific uses specified by NJHMFA. The unpaid balance at maturity will be renegotiable under new terms. The loan is shown net of unamortized debt issuance costs of \$81,829 at June 30, 2018.

1,534,382

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 - LONG-TERM DEBT: (Continued)

Mortgage payable to the Department of Housing and Urban Development due November 2030, bearing no interest. The note is collateralized by land and building in Montclair, New Jersey. The mortgage is scheduled to be forgiven over the 20-year compliance period; scheduled to be completely forgiven at maturity.	640,000
Mortgage payable to the county of Essex due July 2029, bearing no interest. The note is collateralized by land and building in Bloomfield, New Jersey. The mortgage is scheduled to be forgiven over the 20-year compliance period; scheduled to be completely forgiven at maturity.	680,000
Note payable to an auto finance agency, payments of \$355 per month, due March 2020, bearing no interest. The note is collateralized by a vehicle, with a net book value of approximately \$14,000. Imputed interest has not been calculated since, in the opinion of the project's management, it is not material to these financial statements.	7,494
Total Long-term Debt, net of unamortized debt issuance costs	<u>5,194,318</u>
Less: Current maturities	<u>115,360</u>
Long-Term Debt, Net of Current Maturities and Unamortized Debt Issuance Costs	<u>\$ 5,078,958</u>

Amortization of debt issuance costs of approximately \$8,500 for the year ended June 30, 2018, is reported on the statements of activities and changes in net assets as interest expense.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
 (Formerly known as Mental Health Association of Essex County, Inc.)
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

NOTE 8 - LONG-TERM DEBT: (Continued)

At June 30, 2018, the aggregate maturities of long-term debt are as follows:

	<u>Year</u>	<u>Amount</u>
	2019	\$ -
	2020	-
	2021	-
	2022	-
	Thereafter	<u>5,355,373</u>
		5,355,373
Less: unamortized debt issuance costs		<u>161,055</u>
Long-term debt, net of unamortized debt issuance costs		<u><u>\$ 5,194,318</u></u>

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS:

At June 30, 2018, temporarily restricted net assets consists of the following:

Prospect House deficit funding	\$ 19,055
Mental health in "The School Program"	701
Educational activities	19,921
Supportive housing	80,005
Children psychiatric services	90,406
Hyde Watson Foundation	12,283
Operational Incentive	13,078
Mental Health Faith Liaison Program	34,218
Edna's Haven	15,904
Spring Brook	1,449
George A. Ohl Jr. Trust	<u>9,331</u>
Total Temporarily Restricted Net Assets	<u><u>\$ 296,351</u></u>

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS:

At June 30, 2018, permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support:

Educational activities	\$ 25,000
General purposes	<u>45,500</u>
Total Permanently Restricted Net Assets	<u>\$ 70,500</u>

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS:

At June 30, 2018, net assets released from restrictions consists of:

Prospect House deficit funding	\$ 50,000
Prospect House, partial care programs	10,000
Children psychiatric services	5,000
Operational Incentive	91,425
Mental Health Faith Liaison Program	40,203
Edna's Haven	3,372
Educational Assistance	6,644
Collaborative support programs	96,338
Child development	150,648
Spring Brook	1,016
George A.Ohl Jr. Trust	<u>669</u>
Total Program Restrictions	<u>\$ 455,315</u>

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
(Formerly known as Mental Health Association of Essex County, Inc.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 - ENDOWMENT FUNDS:

Donor-designated Endowment:

The Association's endowment consists of individual funds established for the purpose of supporting Mental Health Association of Essex and Morris, Inc. client's programs. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Association follows accounting standards that provide clarification on accounting for donor-restricted endowment funds. The guidance prescribes that the portion of donor-restricted endowment funds that are classified as permanently restricted should not be reduced by losses on the investment of the fund or an organization's appropriations from the fund.

The Board of Directors' interpretation requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this, the Association classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association. The Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the principal of contributions
- (2) The purposes of the Association and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effects of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Association
- (7) The investment policies of the Association

Investment Return Objectives, Risk Parameters and Strategies

The Association has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost, total real rate of return, including investment income, as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 - ENDOWMENT FUNDS: (Continued)

Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent, inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Association expects its endowment assets, over time, to produce an average rate of return exceeding the Consumer Price Index by 3% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund's investment assets and allocation between asset classes. Strategies are managed so as not to expose the fund to unacceptable levels of risk.

Spending Policy

The Association has a policy of each year appropriating for distribution 5% of the average total net assets at year-end for the five-year period ended with the most recent fiscal year-end. In establishing this policy, the Association considered the long-term expected return on its investment assets; the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions; and the possible effects of inflation. The Association expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually. This is consistent with the Association's objective to maintain the purchasing power of the endowment assets, as well as to provide additional growth through new gifts and investment return.

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	Unrestricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted Endowment Fund	\$ -	\$ 70,500	\$ 70,500

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
 (Formerly known as Mental Health Association of Essex County, Inc.)
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

NOTE 12 - ENDOWMENT FUNDS: (Continued)

Changes in endowment net assets for the fiscal year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	\$ -	\$ -	\$ 70,500	\$ 70,500
Investment return:				
Investment income	-	2,398	-	2,398
Net depreciation (realized and unrealized)	-	2,366	-	2,366
Total Investment Return	(4,764)	4,764	-	-
Appropriation for expenditure	4,764	(4,764)	-	-
Endowment Net Assets, End of year	\$ -	\$ -	\$ 70,500	\$ 70,500

Contributions include donor-restricted contributions, the change in the allowance for uncollectible pledges, and amortization of present value of pledges made for more than one year. Endowment funds are invested with operating funds and all investment income is available for operating expenses at the Board of Director's discretion.

NOTE 13 - PENSION PLANS:

The Association currently maintains a defined contribution safe harbor profit-sharing plan. The Plan is open to all employees who meet certain eligibility requirements. Effective January 1, 2012, the Plan was changed to a Safe Harbor Plan. The Safe Harbor Plan provides up to a 4% match and discretionary employer contributions to be determined at year-end by the Board of Directors. Contribution expense for the year ended June 30, 2018 was \$391,980.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
(Formerly known as Mental Health Association of Essex County, Inc.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14 - NEW JERSEY CHILD ASSAULT PREVENTION PROGRAM:

As a participant in the New Jersey Child Assault Prevention Program (“NJCAP”), the Association receives the funds necessary to pay staff stipends and other expenses associated with the program. Advances are included in support, and disbursements are included in program expenses, \$69,573 and \$77,125, respectively, for the year ended June 30, 2018. Timing differences in the recording of advances and expenses may result in the appearance of a slight program deficit or a surplus in any given year. As required by the NJCAP, a separate bank account is maintained for all program receipts and disbursements.

NOTE 15 - CONCENTRATIONS OF RISKS:

Financial instruments that expose the Association to concentrations of credit risk consist primarily of cash, cash equivalents, receivables, investments and debt. The Association maintains its cash in bank deposit accounts at high-quality financial institutions. These balances at times may exceed federally insured limits.

The Association receives the majority of its funding from various federal, state and local governmental agencies. The operations of the Association are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directives, rules and regulations are subject to changes that may occur because of inadequate funding with little notice to pay for the related costs, including the additional administrative burden, to comply with a change. In addition, under the terms of certain state of New Jersey grants, periodic audits of the grants are required. Such audits could result in claims against the Association for disallowed costs or noncompliance with grantor restrictions. Provisions for estimated adjustments resulting from audit and final settlement have been recorded. Differences between the estimated adjustments and the amount settled are recorded in the year of settlement.

The Association receives support and revenue primarily from grants, fees from governmental agencies, resident and private fees, special events and United Way allocations. A significant reduction of such support could have a material impact on the Association’s operations. Management does not expect that its support will be materially reduced.

Approximately 39% of the Association’s revenue for the year ended June 30, 2018, is from government grants and contracts and fee for service (non-Medicaid) revenue.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
(Formerly known as Mental Health Association of Essex County, Inc.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 15 - CONCENTRATIONS OF RISKS: (Continued)

The Association's receivables are concentrated with Medicaid and a significant amount of its debt financing is concentrated with governmental agencies. A considerable balance of the Association's investments is concentrated in mutual funds and certificates of deposit. The Association's exposure to concentrations of credit risk is limited by its policy of investing in diverse investments that can be easily converted to cash.

NOTE 16 - COMMITMENTS AND CONTINGENCIES:

Contributions:

The Association is committed to contributing to the support of the State and National Mental Health Associations. The Association has paid or accrued its commitment of \$9,600 for the year ended June 30, 2018.

Leases:

The Association has a lease agreement for a facility located in East Orange, New Jersey, through May 31, 2019. The lease provides for the Association to cancel upon 60 days written notice in the event of the loss of state funding for the programs that operate out of the facility.

The Association also leases office facilities in Montclair, New Jersey, under month-to-month leases. The Association is responsible for security expenses and for all utilities metered to this rental space.

During March, 2018, the Association entered into a lease agreement for a facility and office space located in Parsippany New Jersey. The term of the lease is five years and two months and will expire in May 2023.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 16 - COMMITMENTS AND CONTINGENCIES: (Continued)

The Association leases other apartments for clients and additional office space as operating leases, which expire at various times during the year.

Future minimum payments on these leases are as follows:

Year Ending	Amount
June 30,	
2019	\$ 413,707
2020	355,578
2021	351,620
2022	239,711
2023	53,310
Thereafter	1,261
	<u>\$1,415,187</u>

Rent expense for facilities for the year ended June 30, 2018, totaled \$397,438. Equipment rental expense for the year ended June 30, 2018 totaled \$88,291.

Grant Advances:

During the year ended June 30, 2018, the Association estimated that approximately \$276,000 of the state contract was projected to be unused by the end of the grant year. The Association was granted the approval to use these funds by the state with a requirement to submit the purpose for the use of such funds. The amount is included in deferred revenue for the year ended June 30, 2018, in the accompanying statements of financial position.

NOTE 17 - LINE OF CREDIT:

The Association has a revolving line of credit with a bank to fund temporary deficits in its working capital. The available balance on this line of credit is \$1,250,000 for the year ended June 30, 2018. The revolving line of credit renews annually. At June 30, 2018, the Association has no borrowings under the line. Interest on the line of credit is payable based on the prime rate as published by the financial institution, not to fall below 5%. The interest rate at June 30, 2018, was 5.25%. Borrowings under this line of credit are secured by all Uniform Commercial Code business assets of the Association.

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 18 - TAX RETURNS:

At June 30, 2018, all required tax returns have been filed.

NOTE 19 - MERGER:

On August 1, 2017, Mental Health Association of Morris County, Inc., a New Jersey not-for-profit corporation, (the merging entity) merged into Mental Health Association of Essex County, a New Jersey not-for-profit Corporation (the surviving corporation). As of the merger date, the name of the surviving corporation was changed to Mental Health Association of Essex and Morris, Inc. Both entities promote mental health, including the integration of physical healthcare, to improve the care and treatment of individuals with mental illness, and to remove the stigma associated with emotional and mental disorders. The major classes of assets and liabilities as of August 1, 2017 are:

	Mental Health Association of Essex, Inc. (6/30/17)	Mental Health Association of Morris, Inc. (7/31/17)	Total
Cash and cash equivalents	\$ 94,220	\$ 437,113	\$ 531,333
Restricted cash	377,342	15,837	393,179
Investments	1,692,035	302,691	1,994,726
Receivables	347,657	730,033	1,077,690
Other Assets	195,373	235,884	431,257
Property and Equipment, Net	6,781,908	139,291	6,921,199
Total Assets	<u>\$ 9,488,535</u>	<u>\$ 1,860,849</u>	<u>\$ 11,349,384</u>
Line of credit	\$ 275,000	\$ -	\$ 275,000
Accounts payable and accrued expenses	862,557	239,478	1,102,035
Deferred Revenue	272,604	830,572	1,103,176
Long-term debt	5,301,122	-	5,301,122
Net assets:			
Permanently restricted	70,500	-	70,500
Temporarily restricted	233,265	203,815	437,080
Unrestricted	2,473,487	586,984	3,060,471
	<u>2,777,252</u>	<u>790,799</u>	<u>3,568,051</u>
Total Liabilities and Net Assets	<u>\$ 9,488,535</u>	<u>\$ 1,860,849</u>	<u>\$ 11,349,384</u>

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
(Formerly known as Mental Health Association of Essex County, Inc.)
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2018

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Award Period	Program Award or Loan Amount	Loan Balance at Beginning of Year	Expenditures
Federal Awards						
U.S. Department of Health and Human Services						
Substance Abuse and Mental Health Services Administration:						
Passed through state of New Jersey						
Department of Human Services						
Division of Mental Health and Addiction Services						
Block Grants for Community Mental Health Services	93.958	30209	7/1/17 - 6/30/18	\$ 315,975	\$ -	\$ 315,975
Projects for Assistance in Transition from Homelessness	93.150	30209	7/1/17 - 6/30/18	271,410	-	271,410
U.S. Department of Housing and Urban Development						
Supportive Housing	N/A		N/A	829,000	680,000	-
Continuum of Care Program:						
Supportive Housing Program		NJ0116L2F091609	8/1/17-6/30/18	48,842		48,842
Passed through from Homeless Solutions, Inc. Safe Haven						
Continuum of Care Program	14.235	22-2491675	8/1/17-6/30/18	89,100		89,100
Passed through NJ 2-2-2 Partnership:						
Continuum of Care Program:						
Homeless Outreach Services			8/1/17-6/30/18	14,586		12,138
Passed through County of Morris, Department of Human Services:						
Development Block Grant		05-16-1320	8/1/17-6/30/18	3,880	-	3,880
Passed through Essex County, New Jersey, Community:						
Development Block Grant		R-2017-1009	N/A	9,678		9,678
Passed through city of East Orange, Community						
Development Block Grant		N/A	N/A	20,000	-	20,000
Development Block Grant		N/A	N/A	28,160	-	28,160
Total Federal Awards				\$ 1,630,631	\$ 680,000	\$ 799,183

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.

(Formerly known as Mental Health Association of Essex County, Inc.)

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)

YEAR ENDED JUNE 30, 2018

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Contract Ceiling	Award Period	Program Award or Loan Amount	Loan Balance at Beginning of Year	Expenditures
State Awards							
State of New Jersey - Division of Mental Health and Addiction Services:							
Involuntary Outpatient Commitment Criminal Justice Program	N/A						
Collaborative Justice Services (Jail Diversion)	N/A	30209		7/1/17 - 6/30/18	\$ 818,114	\$ -	\$ 949,256
Projects for Assistance in Transition from Homelessness	N/A	30209		7/1/17 - 6/30/18	297,870	-	215,776
Involuntary Outpatient Commitment Criminal Justice Program	N/A						
Collaborative Justice Services (Jail Diversion)	N/A						
Projects for Assistance in Transition from Homelessness	N/A						
Consumer Advocacy Programs	N/A	30302		8/1/17-6/30/18	958,164		1,220,169
Passed through New Jersey Child Assault Prevention				7/1/17 - 6/30/18	69,573	-	69,573
State of New Jersey - Division of Mental Health and Addiction Services:							
Community Support Services Program	N/A	30209F		1/1/18 - 6/30/18	296,196	-	298,037
Community Support Services Program	N/A	30302F		8/1/17-6/30/18	2,012,296		1,504,336
New Jersey Department of Community Affairs SRAP (State Rental Assistance Program)	93.569			1/1/17-6/30/18	158,880	-	158,880
New Jersey Division of Food and Nutrition Adult Care Food	N/A				59,658	-	59,658
New Jersey Housing and Mortgage Finance Agency NJHMFA	N/A			11/24/08 - 6/30/17	3,725,384	3,725,384	-
Total State Awards					8,396,135	3,725,384	4,475,685
Total Federal and State Awards					\$ 10,026,766	\$ 4,405,384	\$ 5,274,868

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
(Formerly known as Mental Health Association of Essex County, Inc.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the Association and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 - SUBRECIPIENTS:

During the year ended June 30, 2018, the Association did not provide any funds relating to their federal or state programs to subrecipients.

NOTE 3 - INDIRECT COSTS:

During the year ended June 30, 2018, the Association did not elect to use the de minimis cost rate when allocating indirect costs to its federal or state programs.

NOTE 4 - LOAN AND LOAN GUARANTEE PROGRAMS:

As of June 30, 2018, \$640,000 was outstanding on the federal loan program. As of June 30, 2018, \$3,725,384 was outstanding on the state loan program.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Mental Health Association of Essex and Morris, Inc.
Montclair, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of Mental Health Association of Essex and Morris, Inc. ("Association") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

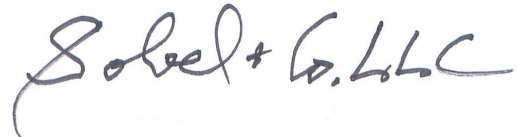
Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and on compliance and other matters, and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting, compliance, and other matters. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants

Livingston, New Jersey
October 25, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND NEW JERSEY OFFICE OF MANAGEMENT AND BUDGET CIRCULAR LETTER 15-08

To the Board of Directors
Mental Health Association of Essex and Morris, Inc.
Montclair, New Jersey

Report on Compliance for Each Major Federal and State Program

We have audited Mental Health Association of Essex and Morris, Inc.'s ("Association") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* and the New Jersey Office of Management and Budget ("NJOMB") Circular Letter 15-08 that could have a direct and material effect on each of the Association's major federal and state programs for the year ended June 30, 2018. The Association's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Association's major programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and NJOMB Circular Letter 15-08. Those standards, the Uniform Guidance, and NJOMB Circular Letter 15-08 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major program. However, our audit does not provide a legal determination of the Association's compliance.

Opinion on Each Major Federal and State Program

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2018.

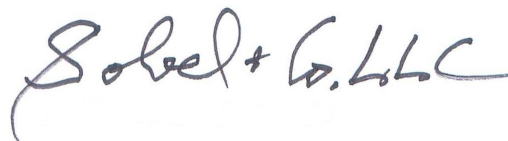
Report on Internal Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and NJOMB Circular Letter 15-08, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control and compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and NJOMB Circular Letter 15-08. Accordingly, this report is not suitable for any other purpose.



Certified Public Accountants

Livingston, New Jersey
October 25, 2018

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

I. Summary of Auditors' Results

Financial Statements

The auditors' report issued on the financial statements of Mental Health Association of Essex and Morris, Inc. was an unmodified opinion.

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified? _____ Yes X No

Noncompliance material to financial statements noted? _____ Yes X No

Major Federal and State Awards

Internal control over the major federal and state programs:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified? _____ Yes X No

Type of auditors' report issued on compliance for the major federal and state programs:
Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance and NJOMB Circular Letter 15-08? _____ Yes X No

MENTAL HEALTH ASSOCIATION OF ESSEX AND MORRIS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

The following federal and state programs were designated as major programs:

<u>CFDA Number</u>	<u>Grant Number</u>	<u>Name of Federal and State Program or Cluster</u>
93.958	30209	U.S. Department of Health and Human Services, Substance Abuse and Mental Health Services Administration, passed through state of New Jersey Department of Human Services, Division of Mental Health and Addiction Services
	30302	State of New Jersey-Division of Mental Health and Addiction Services
	30302F	State of New Jersey – Division of Mental Health and Addiction Services
	N/A	New Jersey Housing and Mortgage Finance Agency loans

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low-risk auditee? X Yes _____ No

II. Financial Statement Findings NONE

III. Compliance Findings NONE

IV. Follow-up of Prior-year Audit Findings NONE